



NC OSC Policy 101.6

Net Position Policy

Policy Area: Accounting & Financial Reporting	Effective Date: 7/1/2001
Policy Sub Area: Account Classification	Last Revision Date: 3/28/2013
Authority: GASB Codification Sections 1800 and 2300; GASB Comprehensive Implementation Guide	Policy Owner/Division: Statewide Accounting
<p>The following applies to the proprietary and government-wide financial statements of the State primary government and to component units.</p> <p><u>Policy:</u></p> <p>Net Assets Restricted by Enabling Legislation (GASB COD 1800): For the State primary government, constraints placed on net position use by enabling legislation are not reported as net position restrictions since such constraints are not legally enforceable. An Attorney General Advisory Opinion referenced that the Governor, pursuant to his constitutional authority under Article III, Section 5(3), may use resources restricted by enabling legislation in his discretion to meet a budget shortfall. Legal enforceability means that the State can be compelled by an external party, such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.</p> <p>Flow of Funds Assumption (GASB COD 2300): Under some programs, the State has the option of using either restricted or unrestricted resources to make certain payments. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use receipts first (which include restricted and unrestricted resources), then State appropriations as necessary. Receipts are defined as all funds collected by an agency or institution other than State appropriations. The decision to use restricted or unrestricted receipts to fund a payment is transactional-based within the departmental management system in place at the agency or institution. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.</p>	
<p><u>Procedures</u></p> <p>NA</p>	

Accounting Guidance

The equity reported in the statement of net position should be labeled "Net Position" and displayed in the following three components: (1) net investment in capital assets; (2) restricted (distinguishing between major categories of restrictions); and (3) unrestricted.

Net Investment in Capital Assets

This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources (effective fiscal year 2014) and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

It is essential that related assets, deferred outflows, liabilities, and deferred inflows be reported within the same category of net position. [Note: Restricted assets and their related liabilities and/ or deferred inflows must be classified under the same category of Restricted Net Position. Similarly, capital assets and their related liabilities and/ or deferred inflows should be classified under Net Investment in Capital Assets.] This prevents one classification from being overstated while another is understated by a similar amount.

Unspent Debt Proceeds: If there are significant unspent debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of "net investment in capital assets". Rather, that portion of the debt should be included in the same net position component as the unspent proceeds, in this case, restricted for capital projects. Therefore, if no capital assets have been purchased or constructed from the debt proceeds, then entire amount of the debt would reduce net position "restricted for capital projects." If some capital assets have been purchased or constructed from the debt proceeds, that portion of the debt would be considered "capital-related." The remainder, the unspent portion of the debt, would be included in the calculation of net position "restricted for capital projects". Generally, the effect of unspent debt proceeds on net position will be negligible—restricted cash will approximate related debt outstanding.

All uses of bond proceeds do not have to be categorized to determine how much of the debt actually relates to assets that have been capitalized. Unless a significant portion of the debt proceeds is spent for noncapitalizable purposes, the entire amount should be considered "capital-related."

If debt is issued to refund existing capital-related debt, the new debt is also considered capital-related. Even though the direct connection between the capital assets and the debt issued to finance the construction or acquisition has been eliminated, the replacement debt assumes the capital characteristics of the original issue.

Unamortized debt issue costs and deferred amounts from refunding "follow the debt" in calculating net position components for the statement of net position. That is, if the debt is capital-related, the deferred amounts would be included in the calculation of "net investment in capital assets." If the debt is restricted for a specific purpose and the proceeds are unspent, the net proceeds would affect "restricted net position."

The State issues bonds to construct/renovate capital assets of other entities (e.g., local governments and colleges/universities). The bonds are a liability of the State, but the buildings will be reported as capital assets of the other respective entities. Because the State acquires no capital assets, the debt is not "capital-related" to the State. Therefore, the effect of the noncapital debt should be reflected in the unrestricted net position component. The fact that the bonds are related to capital assets of another entity does not make the debt "capital" debt of the issuing government even though the

assets acquired may benefit its residents. The government has incurred a liability, decreasing its net position, with no corresponding increase in its capital or financial assets.

Restricted Net Position

Net assets should be reported as restricted when constraints placed on net asset use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments
- b. Imposed by law through constitutional provisions.

The basic concept is that restrictions are not unilaterally established by the reporting government itself, and cannot be removed without the consent of those imposing the restrictions. This category of net position is intended to identify resources that were received or earned by the government with an explicit understanding between the government and the resource providers that the funds would be used for a specific purpose. For example, grants, contributions, and donations are often given under those kinds of conditions. Bond indentures similarly limit the use of proceeds. Also, a State law authorizing a component unit to levy or charge a tax or fee, the proceeds which can only be used for specified purposes, is a restriction imposed by an external party (i.e., the State) and any related net position should be reported by the component unit as restricted.

The specific purpose of a restriction must be narrower than the reporting government itself. For example a grant to a college that may be used only for educational purposes should not be considered restricted, since the purpose of the grant is as broad as that of the college itself. A true restriction must impose a real limitation on the use of resources.

This category of net position should represent restricted assets on the accrual basis reduced by liabilities and deferred inflows of resources that relate to those specific assets. A liability or deferred inflow relates to restricted assets if the asset results from incurring the liability/ deferred inflow or if the liability/ deferred inflow will be liquidated with the restricted assets. Examples of related liabilities/ deferred inflows of resources include the following:

- Unspent portion of capital debt related to amounts restricted for capital projects.
- Unspent portion of noncapital debt related to amounts restricted for education.
- Accrued interest related to funds restricted for debt service.
- Compensated absence accruals related to federal grant reimbursements (Note: Generally, compensated absences will reduce unrestricted net position. However, compensated absences will be considered related liabilities if they are reimbursable expenses when earned).
- No category of restricted net position can be negative. If liabilities and deferred inflows of resources that relate to restricted assets exceed those assets, no balance should be reported; the negative amount should be reported as a reduction of unrestricted net position.

When permanent endowments, permanent fund principal amounts, or minority interest in a component unit are included, "restricted net position" should further classified as expendable or nonexpendable components. Nonexpendable net position refers to resources that are required to be retained.

In the notes to the financial statements, the summary of significant accounting policies should disclose the government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Unrestricted Net Position

Unrestricted net position is the "residual" component of net position. It consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

Situations where the State's internal governing body (General Assembly) places restrictions on existing resources or earmarks existing revenue sources are considered to be constraints that are internally imposed. In these situations, the government does not obtain funds under restrictive conditions; thus, the limitations imposed indicate designations, not restrictions. Such internally dedicated net position should be presented as unrestricted.

Designations of net position should not be reported on the face of the statement of net position.

Unrestricted net position may be a negative number to the extent that a government has elected to fund certain long-term liabilities (compensated absences) as they come due rather than when they are incurred. Agencies should be certain that all liabilities payable and deferred inflows of resources from restricted sources have been reported as part of the restricted net position component.

Related Documents (Memos/Forms)

NA

Revision History

Date	Description
3/28/2013	Updated for GASB Statement 63.